

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**STATUS OF THE
TRANSITION TO THE NEW MEDI-CAL
FISCAL INTERMEDIARY CONTRACT**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

P-228.7

STATUS OF THE TRANSITION TO THE
NEW MEDI-CAL FISCAL INTERMEDIARY CONTRACT

MARCH 1985



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March 29, 1985

P-228.7

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the status of the transition to the new Medi-Cal fiscal intermediary contract. We conducted this audit to comply with Item 4260-001-15 of the Supplemental Report of the 1984 Budget Act.

Respectfully submitted,

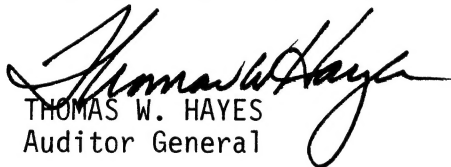

THOMAS W. HAYES
Auditor General

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SUMMARY

Since our last status report on the selection of the new Medi-Cal fiscal intermediary, all protests to the award of the contract to the Computer Sciences Corporation (CSC) have been resolved in favor of the State. The State has developed an extensive process to evaluate the CSC's deliverables (its plans and procedure manuals for operating the new Medi-Cal claims-processing system), and the State is testing the CSC's operation of the claims-processing system. However, as of January 30, 1985, the CSC's transition to the new claims-processing contract was not complete, and the CSC is not processing claims within all time periods required by the contract. The State had not approved 6 of over 140 of the CSC's deliverables and had not been able to complete its testing of the CSC's claims-processing system because the CSC had not yet resolved 38 out of 365 problems identified during the test. The delays in completing the transition to the new contract have not, however, affected the CSC's processing of claims.

Resolution of Protests

All protests to the award of the new Medi-Cal fiscal intermediary contract have been resolved in favor of the State. On August 29, 1983, the Department of Health Services (department) announced its intent to award the new Medi-Cal fiscal intermediary contract to the CSC. On September 6, 1983, the McAuto Systems Group, Incorporated (MSGI), filed a protest against the awarding of the fiscal intermediary contract to the CSC. The Electronic Data Systems Corporation (EDS) also filed a protest on October 5, 1983. The Department of General Services, the state agency responsible for resolving these protests, denied both the MSGI's and the EDS' protests. On November 11, 1983, attorneys for the MSGI requested a court order from the San Francisco Superior Court to compel the State to award the

fiscal intermediary contract to MSGI. On April 13, 1984, the San Francisco Superior Court denied the MSGI's petition. No other legal actions have been taken.

State Monitoring of the Transition

The department's Fiscal Intermediary Management Division (FIMD) has established a detailed review process to ensure that the CSC's deliverables meet the requirements of the new fiscal intermediary contract. After extensive review, the FIMD either approves a deliverable as meeting the requirements of the new contract or disapproves it for failing to meet these requirements. If the FIMD does not approve the deliverable, the CSC is required to correct the deficiencies in the deliverable. The FIMD also conducted a detailed acceptance test of the CSC's Medi-Cal claims-processing system to ensure that the CSC could operate the system and that the CSC complied with the new fiscal intermediary contract. According to the FIMD's manager of acceptance testing, since the CSC was the incumbent contractor, the acceptance testing was even more effective because the FIMD could concentrate its test resources on the areas in the claims-processing system that had previously caused problems. As a result, long-term problems in the CSC's system have been corrected.

CSC Performance Under the New Contract

The CSC has not met all of the requirements of the new Medi-Cal fiscal intermediary contract. In January 1984, we reported that the CSC was not submitting to the State deliverables that met the requirements of the new contract. Additionally, the CSC was not meeting deadlines for submitting deliverables. As of January 30, 1985, the FIMD had not yet approved six of the CSC's deliverables. Also, as of January 30, 1985, the acceptance testing of the CSC claims-processing system was not complete. The transition to the new Medi-Cal fiscal intermediary contract cannot be completed until the State approves the CSC's final six deliverables, approves finished

transition tasks, and completes acceptance testing. According to the CSC's Director of California Operations, the final deliverables will be submitted before March 30, 1985, and testing should conclude by April 15, 1985.

The CSC is also not meeting all time requirements for processing Medi-Cal claims. While the CSC has met the requirement that all types of claims be processed in an average of 18 days, the CSC has not met some specific requirements. The State pays a percentage of the CSC's monthly operations for each of several required tasks. Because the CSC has not met all time requirements for processing claims, the State has not paid the CSC for this portion of the contract. The CSC also did not begin to meet the new contract's quality control reporting requirements until December 1984. The CSC did not, therefore, receive a quality control payment for the month of September 1984 until December 1984. Since December 1984, the CSC's quality control performance has been satisfactory.

INTRODUCTION

As required by the Legislature in the Supplemental Language of the 1982, 1983, and 1984 Budget Acts, we have monitored each phase of the Department of Health Service's (department) selection of a new Medi-Cal fiscal intermediary contractor. In this report, we discuss the activities of the department since the release of our status report of September 1983 on the Medi-Cal fiscal intermediary contract. (In the Appendix, we provide a synopsis of the previous reports addressing the selection of the new fiscal intermediary and the transition to the new fiscal intermediary contract.)

Medi-Cal History

Medi-Cal is California's version of the federal Medicaid program. The program, which is administered by the Department of Health Services, provides medical assistance to the State's poor and needy. Medi-Cal's annual expenditures of over \$4 billion place it among the State's largest programs. Under Medi-Cal's payment system, medical providers, such as the physicians and hospitals who provide medical services to eligible recipients, submit claims for these services to a nongovernmental fiscal intermediary under contract with the State. The fiscal intermediary processes the claims and sends them to the State for payment. In addition, the fiscal intermediary maintains an extensive Medi-Cal management information system that provides the State and the federal government with reports on the Medi-Cal program.

In 1966, the State awarded the first fiscal intermediary contract to the Medi-Cal Intermediary Operations on a no-profit/no-loss basis; that is, the State reimbursed the Medi-Cal Intermediary Operations for its costs. With the Legislature's concurrence, the department decided in 1976 to seek competitive bids for a new fiscal intermediary system. As a result, the State awarded the fiscal intermediary contract to the Computer Sciences Corporation (CSC) for an estimated \$129.6 million.* This contract became effective September 1, 1978.

In awarding the contract to the CSC, the State intended for the fiscal intermediary to increase its financial responsibility, establish a more efficient and effective claims-processing system, and strengthen the State's management of the Medi-Cal program. While the 1978 contract met some of these objectives, the State, the CSC, and the providers of Medi-Cal services encountered considerable difficulties with the contract. As a result, the State established a task force in 1981 to develop a new fiscal intermediary contract.

The Award of the New Medi-Cal Fiscal Intermediary Contract

The State's goal in devising a new contract was to ensure fiscal intermediary services that the State could effectively

*This figure was based on anticipated claims volume and is thus an approximation.

administer and monitor. To this end, the task force, with advice from state control agencies, the federal Health Care Financing Administration, potential vendors, and other interested parties, developed a Request for Proposal (RFP) that described more fully than the previous RFP the services to be performed and the conditions to be met under the new fiscal intermediary contract. This RFP was issued on March 1, 1983.

The State invited vendors to submit detailed proposals that demonstrated their ability to meet the requirements of the RFP. On May 16, 1983, three vendors, the Electronic Data Systems Corporation (EDS), the McAuto Systems Group, Incorporated (MSGI), and the CSC, submitted proposals to the department for evaluation.

The department evaluated the proposals in two steps. The first step was a technical evaluation to determine if the proposals met the requirements of the RFP and to ascertain whether the vendors had the ability to meet the responsibilities stipulated in the contract. To conduct the technical evaluation, the department assembled teams of evaluators from the department, the Health and Welfare Agency Data Center, the State Controller's office, and the Department of Finance. During this evaluation, team members clarified the vendors' proposals and sought corrections from the vendors for areas where the proposals were deficient; the department notified vendors of nearly 2,400 areas in their proposals that needed improvement. After the vendors had submitted their corrections and the evaluations were concluded, the

department judged all three proposals as acceptable; there was no final ranking of the vendors' proposals. On August 3, 1983, the department notified all three vendors that their proposals were acceptable.

The second step of the evaluation process was to send the three vendors an Invitation for Bid. On August 5, 1983, Invitations for Bid were sent to the EDS, the MSGI, and the CSC. The vendors' responses to the Invitation for Bid included bids and detailed information about estimated costs to the vendor. On August 24, 1983, the bids were made public. The CSC had submitted the lowest total bid price of \$72,950,000 for the five-year contract. On August 29, 1983, the State announced its intent to award the contract to the CSC. The EDS and the MSGI protested the award of the contract, but the protests were subsequently denied.

The Department's Responsibilities During the Transition to the New Fiscal Intermediary Contract

The department's Fiscal Intermediary Management Division (FIMD) is responsible for the transition to the new fiscal intermediary contract, which became effective October 1, 1983. The FIMD's responsibilities during the transition include the following: monitoring the CSC's performance under both contracts; reviewing, evaluating, and accepting deliverables--that is, the plans, manuals, and other documents required by the new contract; and testing the CSC's manual and automated systems for processing Medi-Cal claims and

generating information on the management of the Medi-Cal program (this test is referred to as "acceptance testing").

In July 1983, the FIMD initiated plans for the review of the deliverables required from the CSC by the new contract. The State received the CSC's first deliverable in October 1983. The State began acceptance testing of the claims-processing system on February 1, 1984. The CSC initiated operations on schedule under the new fiscal intermediary contract on July 5, 1984. The earliest date by which transition could be completed was October 31, 1984. This date allowed sufficient time for the CSC to complete tasks relating to the transition to the new contract and provided the State four months to review the CSC's operations under the new contract.

Payment Provisions Under the New Contract

Under the new contract, the State's payments to the CSC for operations are classified into six categories: (1) general operations; (2) maximum time for processing claims (cycle time); (3) management information reports; (4) surveillance and utilization reports; (5) quality control activities and reports; and (6) updates to the CSC's reference files. The State pays the CSC only when the CSC has performed its responsibilities according to the contract. If the CSC fails to fulfill requirements in any of the above categories, the State will not pay the CSC for that category.

SCOPE AND METHODOLOGY

The primary objective of this phase of our monitoring was to ensure that the transition to the new fiscal intermediary contract proceeded in accordance with the requirements of the new contract. We focused our review on the State's plans and procedures for administering the transition.

We monitored the resolution of other bidders' protests to the award of the new fiscal intermediary contract by identifying and reviewing applicable laws and regulations. In addition, we examined the written statements of protest from the MSGI and the EDS, and we reviewed the Department of General Services' hearing officer's decision. We interviewed staff from the Department of General Services' legal office. Finally, we attended the protest hearings.

We reviewed the State's monitoring of the transition to the new fiscal intermediary contract by examining its proposed procedures for evaluating the plans, documents, and manuals required from the CSC by the new contract. We also reviewed the State's preparations for the acceptance testing of the CSC's Medi-Cal claims-processing system and systems for generating information about the management of the Medi-Cal program. We also reviewed the results of the acceptance testing.

Additionally, we looked at the CSC's performance under the new fiscal intermediary contract. We examined the CSC's adherence to

transition schedules and reviewed whether the CSC was meeting the new contract's requirements for the daily operation of the fiscal intermediary system.

In the first section of this report, we discuss the resolution of the protests to the award of the new fiscal intermediary contract. In the second section, we discuss the State's performance of its monitoring responsibilities during the transition to the new fiscal intermediary contract. In the third section, we discuss the CSC's performance under the new fiscal intermediary contract.

ANALYSIS

I

THE RESOLUTION OF PROTESTS TO THE AWARD OF THE NEW FISCAL INTERMEDIARY CONTRACT

All protests to the award of the new Medi-Cal fiscal intermediary contract have been resolved in favor of the State. On August 29, 1983, the Department of Health Services (department) announced its intent to award the new Medi-Cal fiscal intermediary contract to the Computer Sciences Corporation (CSC). On September 6, 1983, the McAuto Systems Group, Incorporated (MSGI), filed a protest against the awarding of the fiscal intermediary contract to the CSC. In its protest, the MSGI contended that it was the lowest responsible bidder meeting the specifications of the contract. On October 5, 1983, the Electronic Data Systems Corporation (EDS), the third bidder, also filed a protest reiterating many of the same points that the MSGI had raised in its protest. The Department of General Services, the state agency responsible for resolving these protests, denied the MSGI's protest and decided that the EDS had not submitted its protest on time. On November 11, 1983, attorneys for the MSGI requested a court order from the San Francisco Superior Court to compel the State to award the fiscal intermediary contract to the MSGI. On April 23, 1984, the Superior Court denied the MSGI's petition. No other legal actions have been taken.

According to Section 14832.9 of the California Government Code, the Department of General Services is responsible for resolving protests relating to the award of contracts from the State.* This section of the code also provides that, if a protest is filed before the contract is awarded, the contract cannot be awarded until the protest is withdrawn or until the Department of General Services has issued its decision on the protest. The State Administrative Manual allows that the Department of General Services may hold a public hearing to provide all interested parties with an opportunity to participate in the protest. The Department of General Services held a public hearing on the MSGI's protest on October 4 and 5, 1983. Before the hearing, the MSGI, the CSC, the EDS, and the Department of Health Services submitted written "statements of position" to the Department of General Services.

In its statement of position, the MSGI alleged that the CSC's response to the Invitation for Bid was not consistent with the proposal that the CSC had submitted to the department. The MSGI stated that the CSC had offered a minimum staff of 854 in its proposal but reduced the staff to 510 in its bid package. The MSGI argued that the reduction in staffing in the CSC's bid constituted a material deviation from the CSC's proposal and that the reduction could not be reasonably justified. Also, according to the MSGI, the CSC's bid package did not

*In 1983, the Legislature enacted the Public Contracts Code. Section 10345 of the code governs protests to state contracts.

contain complete staffing estimates, as required by the Invitation for Bid. The MSGI further contended that the State improperly allowed the CSC to modify its bid package after the bids were made public. The MSGI argued that the CSC's bid should, therefore, have been rejected as unresponsive and that the State should have awarded the new fiscal intermediary contract to the MSGI as the lowest responsible bidder.

On October 5, 1983, during the Department of General Services' protest hearing, the EDS also filed a letter of protest with the Department of General Services concerning the intended award of the new fiscal intermediary contract. In the statement of position filed with its protest, the EDS reiterated the essential points raised in the MSGI protest. Although the Department of General Services delayed making a decision about the EDS protest, the EDS continued to participate in the MSGI's protest hearing as an interested party. The CSC and the Department of Health Services responded to the MSGI's protest by maintaining that the facts surrounding the selection of the new contractor fully supported the action of the Department of Health Services and that the Department of Health Services was, therefore, correct in selecting the CSC as the contractor.

On October 14, 1983, the Department of General Services denied the MSGI's protest. The Department of General Services' hearing officer concluded that the Department of Health Services had complied with the requirements of Section 14832.9 of the Government Code and

that in proposing to award the contract to the CSC the Department of Health Services had correctly chosen the lowest responsible bidder meeting the specifications of the Invitation for Bid. On October 14, 1983, the Department of General Services informed the EDS by letter that its protest of October 5, 1983, was denied because the EDS had submitted it after the five days allowed in the Government Code. Under the provisions of the code, the Department of General Services could not accept the EDS' protest.

On November 11, 1983, the MSGI petitioned the Superior Court of San Francisco to compel the State to award the new fiscal intermediary contract to the MSGI. The MSGI contended that, based upon the evidence that the Department of Health Services, the CSC, and the MSGI had submitted at the protest hearing, the Department of General Services' hearing officer's decision to uphold the award of the new contract to the CSC was "arbitrary and capricious and...an abuse of discretion." The MSGI petitioned the court to compel the Department of General Services to overturn the award of the new contract to the CSC and to award the contract to the MSGI instead.

On February 1, 1984, the court held a hearing concerning the MSGI's petition. Attorneys from the MSGI, the Office of the Attorney General, and the CSC presented evidence at this hearing. On April 23, 1984, the San Francisco Superior Court denied the MSGI's petition. No other legal actions have been taken.

II

THE STATE'S MONITORING OF THE TRANSITION TO THE NEW FISCAL INTERMEDIARY CONTRACT

The Department of Health Services' Fiscal Intermediary Management Division has established a detailed review process to ensure that the Computer Sciences Corporation's plans and procedure manuals (deliverables) meet the requirements of the new fiscal intermediary contract. After extensive review, the FIMD either approves a deliverable as meeting the requirements of the contract or disapproves it for failing to meet these requirements. If the FIMD does not approve the deliverable, the CSC is required to correct the deficiencies in the deliverable. The FIMD also conducted a detailed acceptance test of the CSC's Medi-Cal claims-processing system to ensure that the CSC could operate the system and that the CSC complied with the new fiscal intermediary contract. According to the FIMD's manager of acceptance testing, since the CSC was the incumbent contractor, the tests were even more effective because the FIMD could concentrate its test resources on the areas in the claims-processing system that had previously caused problems. As a result, long-term problems in the CSC's system have been corrected.

Review of Deliverables
Required by the New Contract

To verify that the CSC's deliverables complied with the terms and conditions of the Request for Proposal (RFP) and the CSC's proposal in response to the RFP, the FIMD established a process to review the deliverables and designated specific deliverables to principal reviewers. The FIMD also assigned reviewing responsibilities to several other units elsewhere in the department, including the department's Audits and Investigations Division and the Office of Legal Services.

Reviewers evaluated individual deliverables from the CSC using "deliverable rating forms." The form required the reviewer to measure each deliverable against specific criteria. For example, one criterion required the reviewer to verify whether the deliverable had been submitted on schedule. Another criterion required the reviewer to determine whether the deliverable agreed with the references cited from the RFP and the CSC's proposal. The reviewers used the rating form to identify any deficiencies. If the deliverable met the criteria, the reviewer indicated on the rating form that the deliverable was acceptable. If the reviewing units agreed that the deliverable was acceptable, the FIMD sent the CSC a letter approving the deliverable and a copy of the rating form.

When a deliverable was deficient, the FIMD's reviewer contacted the appropriate staff member at the CSC to request

clarifications. If the CSC's staff member clarified the issue, the FIMD reviewer included this information on the rating form. However, if the CSC's staff member failed to address the deficiency adequately, the FIMD's reviewer informally notified the CSC's transition director of the impending disapproval of the deliverable. At this time, both parties negotiated a new date for the CSC's revision of the deliverable. Afterwards, the FIMD prepared and transmitted the disapproval letter and the rating form to the CSC. The form identified the deliverable's deficiencies and the requested modifications. It also listed the due date that the CSC's director had previously agreed upon for the revision. The FIMD reviewed the revised deliverables using the same process that it had used for the original deliverables.

Acceptance Testing Required
by the New Contract

The purpose of the State's testing of the CSC's manual and automated Medi-Cal claims-processing systems was to ensure that the CSC had completely and correctly installed all elements of the system and that the CSC's operations complied with the new fiscal intermediary contract. In designing the requirements for the acceptance testing, the FIMD assumed that the new contract might be awarded to a firm other than the CSC. Because the CSC received the new contract, state testers could concentrate not only on ensuring that the Medi-Cal claims-processing system would work but also on correcting any problems noted under the old contract.

To test the CSC's claims-processing system, the FIMD assembled six acceptance test teams; each team was responsible for testing specific areas of the CSC's system. The teams established criteria for the testing based on the RFP and the CSC's proposal. The test teams also created over 1,000 hypothetical claims, each with known errors or deficiencies or with other "predetermined results," and a variety of other test materials to be used in the tests. The teams then developed a plan and schedule for the acceptance testing. The schedule specified which tests would be conducted each day of the test period. The hypothetical claims and other material were then sent to the CSC for processing.

After the CSC had processed this material, the teams compared the CSC's results with the "predetermined results." If the results differed from those that were expected, the test teams prepared a "system variance report" describing the perceived problem and sent it to the CSC. The CSC was then responsible for addressing the problem. Upon notification from the CSC that the problem had been corrected, the State retested the system to ensure that the problem had been corrected. The test teams also tested the accuracy of the CSC's management information reports. Any inaccuracies or problems detected in these documents were also reported to the CSC in a system variance report. The test teams then also tested CSC's corrective actions in these areas.

The FIMD's acceptance test manager noted that since the CSC was the incumbent contractor and was already processing claims, the tests were even more effective because FIMD's testers were able to choose areas where problems had previously been identified and the testers were able to concentrate test resources in those areas. As a result, the FIMD has identified long-term problems and inaccuracies in the CSC's system and has had the CSC correct these problems.

III

THE COMPUTER SCIENCES CORPORATION'S PERFORMANCE UNDER THE NEW FISCAL INTERMEDIARY CONTRACT

The Computer Sciences Corporation has not always met the requirements of the new Medi-Cal fiscal intermediary contract. As of January 30, 1985, the CSC's transition to the new Medi-Cal claims-processing contract was not complete. The State had not approved 6 of over 140 of the CSC's deliverables and had not completed its testing of the CSC's claims-processing system. The CSC must also complete seven tasks required by the contract. The delay in completing the transition to the new contract has not, however, affected the CSC's processing of claims. In addition, the CSC did not initially meet the new contract's reporting requirements for quality control. These requirements were included to ensure that the CSC processes claims accurately and reports problems in the claims-processing system to the State. Finally, the CSC is not processing all claims within the time periods required by the contract. Because the CSC has not processed claims within the required period, the State has not paid the CSC for the portion of the contract concerned with the time allowed for processing claims (cycle time).

In January 1984, we reported that the Department of Health Service's Fiscal Intermediary Management Division, which is responsible for monitoring the new fiscal intermediary contract, had judged

67 percent of the CSC's initial deliverables as unacceptable as of December 21, 1983.* The FIMD disapproved deliverables because they lacked detail and they failed to comply with contract requirements. During the transition to the new contract, the FIMD disapproved over a third of the CSC's initial deliverables and disapproved many revisions to these deliverables. Additionally, the CSC had not submitted certain deliverables and had failed to meet deadlines. Following our report, the CSC met with the FIMD to negotiate new deadlines for submitting deliverables.

As of January 30, 1985, the FIMD had not approved 6 of over 140 deliverables. For example, the FIMD had not approved the manuals that document the operation of the computer system that the CSC uses in processing claims. Additionally, the FIMD has not approved the accounting reports that itemize the CSC's costs.

In addition to these unapproved deliverables, the CSC must complete seven "tasks" required by the contract before the transition to the new fiscal intermediary contract can be completed. These tasks include the full implementation of all the manuals that are used in the Medi-Cal claims-processing system. The FIMD cannot verify that the CSC has completed this task until it has approved all the manuals related to the new contract for claims-processing.

*Auditor General Report P-228.6, "The State's Medi-Cal Fiscal Intermediary Is Not Meeting the Requirements of the New Claims Processing Contract," January 1984.

According to the CSC's Director of California Operations, the CSC will submit the final deliverables to the FIMD before March 30, 1985. He noted that some of these deliverables are quite complex and that the CSC will need time to prepare documents that meet the State's requirements. The FIMD's transition manager explained that, while none of the outstanding deliverables affects the operation of the CSC's claims-processing system, the State will not complete the transition and make final payment to the CSC until the CSC has submitted all deliverables, the FIMD has approved all submitted deliverables, and the CSC has completed all transition tasks.

Additionally, before the transition to the new contract can be completed, the State must also finish its acceptance testing of the CSC's claims-processing system. Thirty-eight of 365 "system variance reports" remained unresolved as of January 30, 1985. System variance reports indicate problems in the CSC's claims-processing system. The CSC has not responded to 17 system variance reports, and the State is re-testing the remaining 21 before approving the corrections that the CSC submitted. The CSC's Director of California Operations estimates that the CSC will submit the final 17 responses to the FIMD by April 15, 1985. The FIMD's acceptance test manager explained that the FIMD cannot complete the acceptance tests until it has tested and approved the CSC's responses.

The CSC has also not met all cycle time requirements for processing claims. While the CSC has met the requirement that all

types of claims be processed in an average of 18 days, the CSC has not met some specific requirements, such as the requirement that all claims for hospital care be processed in 27 days. Although the CSC has met this requirement for 95 percent of the claims, the law mandates that 100 percent be processed in 27 days. Because the CSC has met some specific time requirements, the Chief of the FIMD recommended that the CSC be paid 50 percent of the cycle time payment, although he notified the CSC that if the CSC does not meet all time requirements by April 1985, the CSC will not receive any payments until full compliance is achieved. According to the CSC's Director of California Operations, the CSC will meet this deadline. He noted that the CSC would have met limits on processing time earlier, but the claims volume was higher than the CSC had expected and fewer providers than the CSC expected have used magnetic tape to submit claims. Claims on magnetic tape require less time for the CSC to process.

As of February 4, 1985, the State Controller's office has not allowed the Chief of the FIMD to make the payment for 50 percent of the cycle time. According to a representative of the State Controller's office, the fiscal intermediary contract does not allow for partial payments. To remedy this situation, the Chief of the FIMD is considering a modification in the contract that will allow the State more discretion in making payments to the CSC.

In addition to not meeting time requirements for processing claims, the CSC did not meet reporting requirements for quality control

for the month of September 1984. As a result, the State did not pay the CSC's quality control invoices for that month. According to the Chief of the FIMD, the CSC did not submit some required quality control reports, such as the report that shows the accuracy of the CSC's claims-processing system. In addition, the reports that the CSC had submitted did not comply with contract requirements. For example, as required by the contract, the CSC reported errors in the claims-processing system, but did not project the possible dollar amounts associated with these errors. Finally, the CSC did not submit "corrective action plans" as required by the contract. In November 1984, however, according to the FIMD, the CSC submitted the required reports. Subsequently, the State determined that the CSC had met the reporting requirements on quality control of the new contract, and in December 1984, the State paid the CSC's September invoice. As of January 30, 1985, the CSC had continued to meet its quality control requirements.

CONCLUSION

As of January 30, 1985, the Computer Sciences Corporation's transition to the new Medi-Cal claims-processing system was not complete. The State had not approved 6 of over 140 of the CSC's contractually required deliverables nor had it completed its testing of the CSC's claims-processing system. The transition to the new fiscal intermediary contract will not be complete until the State approves all the CSC's deliverables

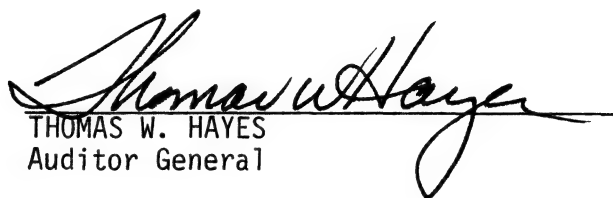
and completes its tests of the claims-processing system. In addition, the CSC is not processing all Medi-Cal claims within the time limits contained in the new contract.

RECOMMENDATION

The Department of Health Services should respond to this report in 60 days, again in 6 months, and again in one year after this report is released. These responses should describe the status of the outstanding deliverables. The department should also notify us of the completion of the transition to the new fiscal intermediary contract. Finally, the department should report on the status of the CSC's efforts to meet time limits on the processing of claims.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: March 25, 1985

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MAR 21 1985

Mr. Thomas Hayes
Auditor General
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660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

We appreciate the opportunity to review the draft copy of your report, "Status of the Transition to the New Medi-Cal Fiscal Intermediary Contract".

We believe your report accurately describes the status of Computer Sciences Corporation's (CSC) contract to operate the California Medi-Cal Management Information System during the period covered by the report. The Department of Health Services (DHS) concurs with and supports the recommendations proposed in this report.

The completion of transition requirements for the fiscal intermediary contract with CSC continues to be a major concern of the DHS staff responsible for managing the new contract and the remaining work in this area continues to be closely monitored and evaluated. The State and CSC are continuing to work together to ensure that outstanding problems are corrected and outstanding transition requirements are fully met.

The DHS will be pleased to provide the report updates requested. In 60 days, the first of the update reports will be provided with full details on the status of outstanding deliverables, transition tasks and CSC efforts to meet the time limits on the processing of claims.

Thank you for the thorough and professional approach used by your office and staff.

CSC has conducted an independent analysis of your report which is enclosed for your information.

Ben Thomas is the contracting officer responsible for the CSC contract. He is available at 322-7598 to discuss any questions you may have.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ken Kizer for'.

Kenneth W. Kizer, M.D., M.P.H.
Director

Enclosure

COMPUTER SCIENCES CORPORATION

GOVERNMENT HEALTH SERVICES DIVISION

(916) 920-5000

2000 EVERGREEN • P.O. BOX 15000 • SACRAMENTO, CALIFORNIA 95813

REC'D

MAR 18 1985

FIMD

March 18, 1985
CSC Ref. #3875A

Mr. Ben Thomas, Chief
Fiscal Intermediary
Management Division
Department of Health Services
714 "P" Street, Room 950
Sacramento, CA 95814

Subject: Office of the Auditor General's Report P-228.7

Dear Mr. Thomas:

Computer Sciences Corporation has reviewed the draft report issued by the Office of the Auditor General entitled Status of the Transition to the new Medi-Cal Fiscal Intermediary Contract (P-228.7) dated March 1985. Generally, the Auditor General's staff has fairly represented the facts concerning the transition to the new fiscal intermediary contract. However, we identified several areas of concern which are discussed below.

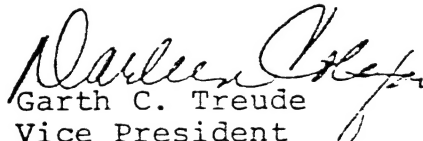
1. In many sections of the draft report, the Auditor General identifies that 38 out of 365 problems identified during Acceptance Testing are not yet resolved. CSC contends that the reference should be to 38 out of 365 potential or perceived problems identified during Acceptance Testing. FIMD staff will corroborate the contention that a number of System Variance Reports issued by FIMD pertained to testing administration matters and perceived problems. Until CSC responds to the perceived problem it is not possible to accurately assess whether or not a real problem exists.
2. There are several references in the draft report pertaining to "CSC's system" or "CSC's claims processing system." These references would be more accurate if they were described as the California MMIS (CA-MMIS). As you know, the CA-MMIS is not a proprietary system of CSC but rather, a system constructed and operated by CSC at the direction of the Department of Health Services.

3. There are two references in the draft report that indicate Acceptance Testing should conclude by February 28, 1985. Since this date was not achieved, we propose that a date of April 15, 1985 be substituted for the February 28, 1985 date. ①
4. In recognition that the issue of payment for cycle time performance is the subject of a formal contract dispute, CSC elects to make no comment regarding the accuracy of the statements contained in the Auditor General's report.
5. The draft report contains numerous references to CSC's failure to comply with Quality Control requirements. CSC asserts that the delayed payment for the September 1984 Quality Control component was due to differing opinions on the precise reporting requirements under the new contract. ② Once an agreement on the reporting requirements was obtained, necessary revisions were promptly made by CSC and payment released by FIMD.

Finally, the Auditor General's draft report contains many references that characterize CSC's performance as having fallen short of contract expectations. It seems desirable that some positive statement of CSC's performance during the contract transition and initial operations period be cited in this report. At a minimum the Office of the Auditor General could indicate that CSC began claims processing on schedule, July 5, 1984, without encountering any significant processing difficulties.

Any questions or comments regarding our analysis of this draft report may be directed to Paul Gilbertson at 920-5094.

Very truly yours,


Garth C. Treude
Vice President
Western Region

Auditor General Comments:

- ① On February 1, 1985, the CSC's Director of California Operations assured us that the CSC would complete its acceptance test tasks by February 28, 1985. As the CSC notes in its response, it was unable to meet this date. Consequently, the text of the report was changed to indicate the CSC's new estimated completion date of April 15, 1985.
- ② Text changed.

APPENDIX

SYNOPSIS OF PREVIOUS AUDITOR GENERAL REPORTS ON THE SELECTION OF THE NEW MEDI-CAL FISCAL INTERMEDIARY AND THE TRANSITION TO THE NEW FISCAL INTERMEDIARY CONTRACT

June 1982, Management Letter, Report P-228.1

In this report, we recommended that the Medi-Cal Procurement Project (MCPPE), the task force assembled to develop the Medi-Cal fiscal intermediary contract, delay the decision to extend the old contract until four issues had been addressed by the MCPPE's staff. These issues included the documentation of the claims-processing system, the cost of extending the old contract, the State's allowance of bids for functionally equivalent systems, and the time and staffing requirements for preparing the Request for Proposal.

October 1982, Status Report on the Selection of the Next Fiscal Intermediary, Report P-228.2

In this report, we provided information on the MCPPE's overall status. We found that although the MCPPE had not met two of the goals set by a procurement consultant--the review of the documentation of the claims-processing system and full MCPPE staffing by July 1, 1982--the project was underway and, by August 1, 1982, was fully staffed. We also reported the status of the MCPPE's implementation of our recommendations concerning an extension of the old fiscal intermediary contract, and we provided a synopsis of the major policy decisions regarding the procurement process and the new contract.

October 1982, State Costs for Fiscal Intermediary Services Supplied by the Computer Sciences Corporation, Report P-228.4

In this report, we presented information about the State's expenditures for Medi-Cal fiscal intermediary services under the old contract. Also, we estimated that the State lost approximately \$3.4 million in federal funds due to delays in gaining the Health Care Financing Administration's full certification of the Medicaid Management Information System within the Computer Sciences Corporation's claims processing system.

February 1983, Status of the Medi-Cal Procurement Project and Review of Its Draft Request for Proposal, Report P-228.3

We noted in this report that the MCPP was on schedule, that system documentation was adequate, and that recent Medi-Cal reform legislation had been incorporated into the Request for Proposal (RFP). We also noted our concerns over the RFP provisions for the quality control and payment of a contractor. We explained that if these provisions were not corrected, problems that occurred under the old contract may be repeated in the new contract. We included a synopsis of the MCPP's major policy decisions since the previous Auditor General's status report of October 1982.

September 1983, The Selection of the New Medi-Cal Fiscal Intermediary, Report P-228.5

In this report, we discussed the release of the MCPP's Request for Proposal, the procedures that MCPP used to resolve vendor protests concerning provisions in the RFP, the methods and procedures it used to evaluate vendor proposals, the Invitation for Bid process, and the selection of the Computer Sciences Corporation as the lowest responsive bidder. We also noted that the two other vendors bidding for the contract had protested the award of the new fiscal intermediary contract to the CSC.

January 1984, The State's Medi-Cal Fiscal Intermediary Is Not Meeting the Requirements of the New Claims Processing Contract, Report P-228.6

We found that the Computer Sciences Corporation had failed to meet the requirements of the new fiscal intermediary contract. The State had found that 67 percent of the deliverables required in the contract with the CSC had been disapproved because the deliverables lacked detail and failed to comply with contract requirements. Furthermore, the CSC had failed to meet deadlines for submitting revisions to the deliverables. Officials at the CSC attributed the CSC's failure to meet requirements partially to insufficient resources. However, both the RFP and the CSC's proposal require the CSC to commit sufficient resources to meet the requirements of the contract. We recommended that the State assess liquidated damages of \$500 per day for each deliverable until the CSC complied with the contract.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps